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FOR AN AUDIT COMMITTEE OF
THE BOARD OF HOSPITAL TRUSTEES



Ontario

Ministry of
Health



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Guideline for an Audit Committee of the Board of Hospital Trustees

Introduction

The bylaws of the hospital normally give the finance committee the responsibility of reviewing the annual financial statement and the auditor's report prior to the annual meeting of the corporation and prior to the acceptance and publication of these reports by the board.

This responsibility expands to become the responsibility of what is known in a business corporation as an audit committee when the following is added:

“To meet, either at the request of the auditors or on its (the committee's) own request, to consider any matters which the auditors believe should be brought to the attention of the directors or shareholders.”

Audit committees of the boards of business corporations were recommended in the 1960s and have since become a statutory requirement for business corporations under Ontario and federal legislation. While there is no statutory requirement for an audit committee of the board for hospitals, it is strongly recommended that hospital boards follow the concept of an audit committee of the board in examining the operating results and financial condition of the hospital.

Some hospitals have their auditors attend finance committee meetings as a matter of course and thereby have already established the audit committee concept as a normal part of their board's financial control responsibility.

This guideline is directed to the boards of those that have not done so and is designed to assist their finance committees to act as audit committees if so instructed by the board.

Financial statements and auditor's report

A distinction must be drawn between the financial statement and the auditor's report.

The financial statement is usually prepared by the hospital's accounting staff but is sometimes prepared by the auditors or with their assistance. In either case it is *the board's* report to the members of the corporation, the creditors, the public and the Ministry of Health showing the financial condition of the corporation as the result of the board's stewardship.

The auditor's report is separate and distinct from the financial statement. It defines the scope of the review conducted by the auditor and gives an “opinion” but not an absolute assurance or guarantee as to the accuracy of the financial statements.

The key words in the standard auditor's opinion are "present fairly . . . in accordance with generally accepted accounting principles applied on a basis consistent with the prior year."

The auditor is concerned with materiality. In other words he may, in the course of his review, find certain aspects of the system of accounting and internal control that are in need of improvement. They may not warrant him to qualify his report, but he should bring them to the attention of the board through the finance committee if given the opportunity.

Responsibilities of the finance (audit) committee

The finance committee should have the following standing responsibilities:

1. To review the financial statements and auditor's report prior to their submission to the board of trustees.
2. To meet with the auditor at its own or the auditor's request to consider any matters the auditor believes should be brought to the attention of the trustees.

Most auditors prepare an internal control or management letter containing a description of any deficiencies identified during the audit, comments on accounting or other matters that may have come to their attention and in some cases recommendations to remedy weaknesses.

The finance committee should ensure that the auditor has prepared the letter and that its contents come to its members' attention at the meeting to review financial statements. It will provide the basis for discussion with the auditor and a basis for examining the financial statement.

Before recommending acceptance of the financial statements and the auditor's report, the finance committee should ensure that the auditor has received all the information required for his examination. Committee members should also satisfy themselves that any suggestions the auditor may have for strengthening internal controls or improving the accounting system are being given proper consideration by the hospital.

Experience with audit committees in industry suggests that a member's general competence in business may be more useful than technical skills. The standard of judgment required is one that a prudent businessman would exercise in his own affairs in comparable circumstances. He should, however, be sufficiently versed in financial matters to be able to assess the reports presented to him and be aware of the hospital's (financial) bylaws and statutory requirements governing the hospital's financial policy and disclosure of the financial results.

The duties of an audit committee may be exercised by the board itself, by the finance committee as a whole, by an audit sub-committee of the finance committee or by a separate audit committee of the board that would normally report to the board through the finance committee.

A small specialized committee that can meet separately with the auditor and the corporation's financial manager to evaluate the auditor's letter before regular meetings is an effective arrangement. It gives both the auditor and staff the opportunity to clarify complex or contentious problems before presentation to the finance committee or the board of trustees by the auditor.

The audit committee should have a minimum of three members of whom the majority are board members.

Engagement letter

An engagement letter is often prepared to outline the understanding between the corporation and the auditor as to the responsibilities the auditor is assuming. It should define any areas of service required by the corporation over and above those required by the auditor's professional obligations and statutory responsibilities. It can also specify the form and timing of communications between the auditor and the management or the trustees.

If there is not an engagement letter there should nevertheless be a clear mutual understanding between the committee, acting as the audit committee of the corporation, and the auditor, as to audit objectives and the methods to be used to obtain the objectives.

Questions for discussion in meetings with the auditors

Some members of the committee will not be familiar with this type of financial review and the following is a list of questions that may usefully be raised at meetings with the auditor to clarify important matters and stimulate discussion.

a) On the financial statements

1. Are the statements prepared on the basis of the best possible standards of accounting of non-profit institutions and, if not, what adjustments would be required to meet these standards?
2. Do the statements satisfy all statutory requirements and regulations of the Public Hospitals Act or other Ontario legislation pertaining to the hospital's financial affairs?
3. Have there been any changes in accounting principles or methods that affect comparability with prior years' results and, if so, does the auditor agree with the changes?
4. Are the hospital's accounting principles in accord with those described in the Canadian Hospital Accounting Manual and the supplement thereto and generally in effect in other hospitals?
5. Are the hospital's financial statements comparable in content and detail with those of other hospitals of a similar size?
6. Do the financial statements include the financial condition and results for the year of all special, trust or endowment funds in the control of the

board of trustees and if not in what form have these special funds been reported?

7. Were there any unusual or non-recurring items or prior period adjustments recorded in the accounts and, if so, how are they reflected in the financial statements?
8. Were there any significant items included in the accounts but not itemized in the statements or the notes that should be drawn to the attention of the board trustees?

b) On the auditor's report to the members of the corporation

1. The committee should carefully review the wording of the auditor's report and should inquire about any deviations from the standard form which is shown below:

Auditor's Report

We have examined the balance sheet of _____ Hospital as at December 31, _____, and the statement of revenue and expenditure for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the hospital as at December 31, _____ and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

2. What was the timing of the audit? Were the accounts of the corporation in sufficiently current condition to enable the auditor to carry out certain preliminary tests and verifications prior to the year end, and prior to the year end closing of accounts?
3. What was the basic auditing approach? To what extent was the auditor able to rely on statistical sampling rather than a detailed examination of transactions? Did the auditor request confirmations of balances in bank accounts, investments, accounts receivable, accounts payable and were the replies satisfactory?
4. What was the scope of the audit? Which items on the financial statements were examined in depth and which were considered to require only a more general examination or were not considered of a material significance? Were there any changes in emphasis from the prior year's examination?

To what extent did the auditor attest to physical inventories of drugs and other supplies and the valuation of those inventories?

5. Did the auditor encounter any difficulty in gaining access to records or information required for his examination? Did he receive adequate explanations from staff? Has he been excluded from any records on the grounds that they are private and confidential? Is the auditor routinely informed throughout the year of notices, agendas and minutes of finance committee meetings, or of financial decisions or procedural changes that have a bearing on his examination?
6. Was there continuity in the auditor's staff from that of the prior year? What levels of experience were available on the audit staff?
7. Are there any fundamental accounting or internal control points lacking in the hospital?

Is the auditor satisfied with the balance between internal controls in force and the costs of additional controls? (There are always some additional controls possible to increase security but the cost may be more than either the hospital can afford or more than is warranted by the risk).

8. To what extent is the auditor able to integrate his examination with regular internal audits carried out by the hospital's staff? Is there scope for further integration? Is the auditor satisfied with the effectiveness of the hospital's internal audit program and the skills and experience of the staff carrying out the program?
9. To what extent was it necessary to call upon the auditor for assistance in closing the accounts for the year or in preparing the financial statements?
10. Do the auditors have any comments on the quality of the internal accounting records, internal accounting policies and their dissemination, the extent of adherence to directors' resolutions and the timeliness and completeness of reports to members of management and directors?
11. Were there disagreements with management as to the accounting treatment or financial statement disclosure of any significant transactions; or any differences of opinion relating to the adequacy of provisions for items such as depreciation and doubtful accounts? If so, how were they resolved?
12. Were controls for the proper segregation of capital and special expenditures as distinct from operating costs followed consistently?
13. Is current information on hand to enable accounting staff to readily identify the source of payment of patient accounts (e.g. patient responsibility, OHIP, supplementary health plans, local welfare, etc.)? Is the system of follow-up and aging of accounts applied consistently and effectively?

14. In the auditor's opinion, is the system of internal control and accounting and level of financial expertise employed consistent with this size of hospital? If not, has the auditor any specific recommendations to correct the significant weaknesses?

Internal Control Guidelines (Refer Appendix I)

Auditors of larger firms of public accountants will normally have access to the specialized resources and experience of the firm. Their program for a hospital audit will be well established by experience in this field and they will normally provide assigned staff with a specific plan to follow.

The Ministry of Health has prepared Internal Control Guidelines (Appendix I), which may be used when auditors do not have a specific program for a hospital audit. In these cases, it is recommended that hospitals supply their auditors with a copy and ensure that the auditors use the guidelines or guidelines of their own that are as comprehensive.

This guideline will be equally valuable to the hospital's financial officer or internal auditor, and if there is a degree of integration between the work of the external and internal auditor, it may provide the basis for a division of work.

It should be noted that there are "duty rosters" contained in the guidelines indicating normal approval authorities that would be expected for the finance committee and various staff levels in hospitals of one to 100 beds and hospitals of 101 to 300 beds.

These rosters are not mandatory but they provide a basis for the hospital board to review its own scheme to delegate authority. For example the duty rosters show finance committee as being the sole authority for the approval of certain documents and transactions. On the one hand the board may wish to reserve to its committee the approval of certain key transactions with no delegation to senior staff, but on the other may wish to avoid direct participation by its members in the hospital's accounting system.

Each hospital should ensure that it has a duty roster approved by the board that is consistent with the hospital's organization and that it is reviewed and updated whenever there are organizational changes.

Appendix I
Ministry of Health
Internal Control Guidelines
for Hospitals

Internal Control Evaluation Guidelines

to be completed or updated annually

Hospital _____

Date _____ Prepared by _____

Objectives

The accompanying Internal Control Guidelines have been prepared for the use of auditors, hospital administrators, and audit committees to determine the adequacy of the system of internal control, since adequate internal control is essential to the effective administration and management of hospital operations and for the accurate presentation of the results of such operations. These guidelines are intended to focus attention to the identification of possible areas of weaknesses so that corrective action may be taken, and to the implementation of improvements in internal control where deficiencies exist.

Instructions for use

1. This guide has been designed to aid in the evaluation of the hospital's internal check and managerial controls. The answers obtained will help in determining the nature and risk of control deficiencies.
2. "No" answers should be explained briefly in the "remarks" column.
3. Consider whether effect of "no" answers may be offset by alternate controls and, if so, explain.
4. If a question is not applicable, write N/A and *note why*: Consider whether any substitute question should be inserted.
5. The questionnaire has been structured around broad control questions and the various sub-questions are suggestions as to the matters that should be considered in arriving at the correct answer.
6. The "duty roster" included with this questionnaire has been designed for small and medium hospitals and has been classified as follows:

Small Hospital A1-100 beds
Small Hospital B101-300 beds

Revenue, Receivables, Receipts

Are there adequate controls to prevent:	Yes/No* N/A	Remarks including Compensating Controls
In-Patient Only		
1. Accommodation being provided to patients and not accounted for in-patient day statistics and calculations?		
a) preparation of admitting report immediately upon admission. (Ontario — Form 106)		
b) clear indication of responsibility for payments at the time admitting report prepared — i.e. insuring agent or self-pay.		
c) taking of midnight census by someone independent of admitting and discharge function.		
d) proper documentation prepared at time patient discharged.		
e) daily reconciliation of midnight census with admissions and discharges by someone independent of — admitting function — discharge function — census taking.		
f) automatic accumulation of patient days in accounting system.		
g) systematic billing of patient days to "other" insuring bodies.		
h) adjustment to patient days and income for retroactive change in agency responsible for payment.		
2. Patients not covered by Provincial Plan receiving services and not being billed?		
a) pre-numbered document prepared on admission or transfer to preferred accommodation.		
b) assignment of rooms for preferred accommodation in accordance with approved allocation of rooms.		
c) billing for preferred accommodation in accordance with Provincial Plan approved rate.		

*No answers represent apparent weaknesses

Are there adequate controls to prevent:	Yes/No N/A	Remarks including Compensating Controls
d) pre-numbered document prepared at time uninsured services rendered.	_____	
e) independent follow-up of serial continuity of preferred accommodation and other uninsured services charge document, e.g. telephone and TV	_____	
f) segregation of billing function and cash receipts.	_____	
3. Invoice errors occurring?		
a) approved rate, number of days, extensions checked?	_____	
Out-Patient Only		
4. Services being rendered but not billed?		
a) operation of central admitting for <i>all</i> out-patients.	_____	
b) preparation of pre-numbered admitting report.	_____	
c) independent follow-up of serial continuity of admitting report and/or charge vouchers after billing.	_____	
d) use of up-to-date rate schedules.	_____	
Both In-Patient and Out-Patient		
5. Services being performed and not recorded in the accounts?		
a) billing segregated from receivables.	_____	
b) daily billing total direct to general ledger posting source.	_____	
c) daily billing total reconciled with total receivable postings.	_____	
6. Errors in the coding of revenues?		
a) independent review of revenue accounting entries and check segregation between "shareable" and "non-shareable" revenue.	_____	

Are there adequate controls to prevent:	Yes/No* N/A	Remarks
7. Receivables being credited improperly?		
a) proper support for all adjustments to accounts.	_____	
b) independent approval of bad debt write-offs.	_____	
8. Overdue accounts escaping attention?		
a) aged trial balances.	_____	
b) independent follow-up and consider use of collection agency.	_____	
9. The occurrence of "lapping"?		
a) receivable trial balancing, aging, review, follow-up of delinquent accounts independent of posting clerks.	_____	
b) checking and mailing of statements independently of posting clerks.	_____	
c) queries followed up independently.	_____	
10. Payments being received and not deposited?		
a) cashier and receivable ledger functions separated.	_____	
b) cheques stamped "for deposit only" when mail opened, bank accepts only for deposit.	_____	
c) mail receipts direct to cashier, listed, or control totals taken immediately.	_____	
d) deposits checked, deposited promptly.	_____	
11. Recoveries and miscellaneous sales being missed?		
a) setting up as receivable such items as		
— housing	_____	
— supplies.	_____	
b) locked in cash register tape or equivalent in cafeteria, parking lot and pharmacy.	_____	
c) independent daily reconciliation of cash deposited with cash register tapes.	_____	
d) approvals for non-routine sales — i.e. scrap and fixed assets.	_____	

*No answers represent apparent weaknesses

Are there adequate controls to prevent:	Yes/No* N/A	Remarks including Compensating Controls
12. Grants, donations and similar payments being missed?		
a) segregation of cashiers' duties from those of mail clerks.	_____	
13. Assets held for patients.		
a) are pre-numbered receipts issued promptly?	_____	
b) is a permanent record of the assets maintained by someone who is independent of the custody of the assets?	_____	
c) are monthly statements issued to the patients?	_____	
d) are these records subjected to audit procedures?	_____	

*No answers represent apparent weaknesses

Small Hospital A

Duty Roster — Revenue, Receivables, Receipts

Function	Personnel							
	Finance Committee (1)	Administrator	Office Manager	Admitting Clerks	Billing Clerk	Accounts Receivable Clerk	Nursing Department	Cashier* Medical Service Departments Secretary
1. Preparation Admission Reports				X				
2. Complete Midnight Census							X	
2a. Review and Approve Midnight Census	X							
3. Initiate Discharge Slips							X	
4. Recap Daily Patient-Day Statistics						X		
5. Reconcile Midnight Census with Patient-Day Statistics			X					
6. Prepare Pre-numbered Charge Slips for Out-Patient and Non-OHIP Services								X
7. Review Charge Slip Rates and Account for Continuity					X			
8. Prepare Patients' Bills					X			
9. Post Charges to Accounts Receivable Sub Ledgers						X		
10. Reconcile Daily Billing Total with Daily Accounts Receivable Control Postings			X					
11. Review Revenue Entries			X					
12. Approve Accounts Receivable Adjustments			X					
13. Approve Bad Debt Write-Offs	X	X						
14. Prepare Monthly Aged Accounts Receivable Trial Balance						X		
15. Reconcile Accounts Receivable Trial Balance to Control Account			X					
16. Review Delinquent Accounts and Prescribe Action		X						
17. Prepare and Mail Patients' Statements	X					X		
18. Receive and Record Mail Receipts								X
19. Balance Cash Receipts and Prepare Deposit							X	
20. Review Support and Verify Deposit			X					
21. Post Payments to Accounts Receivable Sub Ledgers						X		
22. Approve Non-Routine Sales		X						

* These functions could all be performed by the same person.
(1) Or appropriate members of the board if no finance committee.

Small Hospital B

Duty Roster — Revenue, Receivables, Receipts

Function	Personnel									
	Finance Committee (1)	Administrator	Business Manager	Chief Accountant	Admitting Clerk*	Billing Clerk	Accounts Receivable Clerk	Nursing Department	Medical Service Department	Secretary*
1. Prepare Admission Reports					X					
2. Complete Midnight Census								X		
3. Initiate Discharge Slips								X		
4. Recap Daily Patient-Day Statistics					X					
5. Reconcile Midnight Census with Patient-Day Statistics			X							
6. Prepare Pre-numbered Charge Slips for Out-Patient and Non-OHIP Services									X	
7. Review Charge Slip Rates						X				
8. Prepare Patients' Bills						X				
9. Post Charges to Accounts Receivable Sub Ledgers							X			
10. Reconcile Daily Billing Total with Daily Accounts Receivable Postings				X						
11. Review Revenue Entries				X						
12. Approve Accounts Receivable Adjustments	X	X								
13. Approve Bad Debt Write-Offs	X	X								
14. Prepare Monthly Aged Accounts Receivable Trial Balance							X			
15. Reconcile Accounts Receivable Trial Balance to Control Account				X						
16. Review Delinquent Accounts and Prescribe Action		X								
17. Mail Patients' Statements							X			
18. Receive and Record Mail Receipts										X
19. Balance Cash and Prepare Deposit				X						
20. Post Payments to Accounts Receivable Sub Ledgers							X			
21. Test Check Postings from Duplicate Receipts and Duplicate Deposit Slip				X						
22. Approve Non-Routine Sales		X								

* These functions could all be performed by the same person.
 (1) Or appropriate members of the board if no finance committee.

Inventories

There may be several inventory areas — consideration should be given to each of these in answering the following questions. The following inventories are common to most hospitals. 1. Drugs and Medicines — narcotics and others; 2. Medical and Surgical Supplies; 3. Food; 4. Housekeeping and Maintenance Supplies.

Are there adequate controls to prevent:	Yes/No* N/A	Remarks
1. Inventory items being lost or pilfered?		
a) all inventories in areas of limited access with responsibility specifically assigned.	_____	
b) requisitions used for withdrawals and returns or some other control on usage. Pre-numbered and accounted for. Approved.	_____	
c) control over ward supplies and other items expensed but physically on hand.	_____	
d) adequate control over obsolete and slow moving goods.	_____	
e) control over inventories (particularly the pharmacy) at night and at other times when storekeeper not present.	_____	
2. Improper control due to lack of adequate information being produced by the accounting system?		
a) effective budgetary controls and analysis.	_____	
3. Are there periodic counts of inventory on hand and are these counts agreed to the accounting records?		
a) perpetual inventory record.	_____	
b) detailed general ledger breakdown.	_____	
4. Loss or misuse of narcotics?		
a) kept in locked safe.	_____	
b) perpetual inventory record maintained by pharmacist and checked independently.	_____	

*No answers represent apparent weaknesses

Small Hospital A and B

Duty Roster — Inventory

Function	Personnel			
	Administrator	Office Manager	Department Heads	Accounting Clerk
1. Review Physical Layout of Stores Areas	X			
2. Approve Stores Requisitions		X		
3. Account for Pre-numbered Requisitions			X	
4. Prepare Supplies Budget Variance Report		X		
5. Review and Approve Supplies Budget Variance Report	X			
6. Plan and Supervise Periodic Physical Inventory Counts		X		
7. Review Inventory Counts for Slow Moving and Obsolete Stock	X		X	
8. Regular Periodic Check of Narcotics		X		

Internal Control Guidelines

Books of Account

	Yes/No* N/A	Remarks
1. Are there adequate controls to prevent posting or addition errors occurring in ledgers?		
a) trial balanced monthly.		
b) reconciliation of control accounts on a regular basis.		
2. Are there adequate controls to prevent incorrect journal entries being made?		
a) adequately supported.		
b) approved by senior official.		
3. Are there adequate accounting or administrative controls?		
a) regular vacations.		
b) adequate fidelity insurance.		
c) use of CHAM as the basis for the accounting system.		
d) books kept up to date.		
e) timely preparation of monthly financial statements and internal reports to management and department heads.		
4. Are operating budgets used in such a manner that they provide effective control?		
a) timely preparation.		
b) involvement of department heads in preparation.		
c) monthly comparison with actual and explanation of material variances.		
d) review of variances by administrator and finance committee.		
5. Are there adequate controls to ensure that procedural changes during vacations or illness do not result in weakening of internal control?		
6. Are there competent employees in all areas so that the system of internal control is not compromised?		

*No answers represent apparent weaknesses

Small Hospital A

Duty Roster — Books of Account

Function	Personnel					
	Finance Committee	Administrator	Office Manager	Accounting Clerk	Accounts Receivable Clerk	Department Heads
1. General Ledger Trial Balance			X			
2. Reconcile Subsidiary Accounts					X	
3. Review Subsidiary Accounts Reconciliation			X			
4. Prepare Journal Entries			X			
5. Reviews and Approves Important Journal Entries		X				
6. Approve Vacation Schedule		X				
7. Prepare Monthly Financial Statement			X			
8. Review Monthly Financial Statement	X	X				
9. Prepare Monthly Statistical Reports			X	X		X
10. Review Monthly Statistical Reports	X	X				
11. Prepare Budget			X			X
12. Review and Approve Budget	X	X				
13. Prepare Budget Variance Report			X			X
14. Review Budget Variance Report	X	X				
15. Review Insurance Coverage	X	X				

Small Hospital B Duty Roster — Books of Account

Function	Personnel					
	Finance Committee	Administrator	Business Manager	Chief Accountant	Accounts Receivable Clerk	Department Heads
1. General Ledger Trial Balance				X		
2. Reconcile Subsidiary Accounts				X	X	
3. Review Subsidiary Accounts Reconciliation			X			
4. Prepare Journal Entries				X		
5. Review and Approve Journal Entries			X			
6. Approve Vacation Schedule		X				
7. Prepare Monthly Financial Statement				X		
8. Review Monthly Financial Statement	X	X				X
9. Prepare Monthly Statistical Reports				X		
10. Review Monthly Statistical Reports	X	X				X
11. Prepare Budget				X		
12. Review and Approve Budget	X	X				
13. Prepare Monthly Budget Variance Report				X		X
14. Review Monthly Budget Variance Report	X	X	X			
15. Review Insurance Coverage	X	X				

Purchases, Payables, Payments

There may be several purchasing departments — consideration should be given to each of these in answering the following questions. The following purchasing systems are common to most hospitals. Purchases - Goods — 1. Drugs and Medicine — narcotics and other; 2. Medical and Surgical Supplies; 3. Food; 4. Housekeeping and Maintenance Supplies; 5. Equipment — medical and other. Purchases - Services = Routine services for all departments.

Are there adequate controls to prevent:	Yes/No* N/A	Remarks
1. Goods being purchased if not authorized?		
a) purchase order approvals.	_____	
b) purchasing segreated from receiving.	_____	
2. Payables being set up if goods not received?		
a) receiving segregated from accounts payable, and purchasing (where possible).	_____	
b) receiving slip or other written record made.	_____	
c) adequate inspection, claims for short shipments, etc.	_____	
d) invoices checked to purchase orders, receiving slips.	_____	
e) unmatched documents investigated regularly.	_____	
3. Charges being distributed to improper accounts?		
a) distribution of purchase order, voucher distribution reviewed.	_____	
4. Errors from occurring in the segregation of costs between "allowable" and "non-allowable"?		
a) salaries in excess of approved rate.	_____	
b) reference to Hospital Budget Policy Manual for all questionable items, where manual provides assistance.	_____	
c) expensing capital items.	_____	
5. Payments being made if not properly supported?		
a) check of extensions, additions, discounts, taxes.	_____	

*No answers represent apparent weaknesses

Are there adequate controls to prevent:	Yes/No* N/A	Remarks
b) two signing officers independent of purchasing, receiving, accounts payable, and cheque preparation.	_____	
c) first signing officer examines support for payment and approves for completeness.	_____	
d) second signing officer scrutinizes support.	_____	
e) cheques mailed out directly.	_____	
f) payables trial balanced monthly.	_____	
g) independent bank reconciliation.	_____	
h) cheques directly from bank.	_____	
i) reconciliations approved.	_____	
j) pre-numbered cheques, continuity accounted for, control over unused.	_____	
k) bank transfers controlled.	_____	
l) no bearer or "cash" cheques.	_____	
6. Liabilities being incurred but not recorded?		
a) supplier's statements reconciled.	_____	
7. Petty cash being misappropriated?		
a) periodic counts.	_____	
b) vouchers cancelled and IOU's forbidden.	_____	
8. Fixed assets being acquired or disposed of without proper authorization and recording?		
a) use of capital expenditure budget approved by Board.	_____	
b) approval of capital projects by board — by Ministry of Health.	_____	
c) approval of cost over-runs.	_____	
d) reporting of scrapping or disposals.	_____	
e) detailed fixed asset ledger, periodic inspection.	_____	

*No answers represent apparent weaknesses

Small Hospital A

Duty Roster — Purchases, Payables, Payments

Function	Personnel						
	Finance Committee	Administrator	Office Manager	Accounts Payable Clerk	Purchaser/Stockman*	Department Heads	Secretary
1. Approval of Purchase Orders		X					
2. Purchasing and Receiving Functions					X		
3. Accounts Payable Accounting Function				X			
4. Receive and Match Supplier's Invoices, Purchase Order and Receiving Report Copies				X			
5. Follow Up Unmatched Documents			X				
6. Approve Account Distribution			X				
7. Review Allocation of "non-allowable" costs			X				
8. Review and Approve Support for Payment		X					
9. Sign Cheques (Note 1)		X					
10. Mail Cheques Directly							X
11. Prepare Monthly Accounts Payable Trial Balance				X			
12. Agree Accounts Payable Trial Balance with Control Account	X						
13. Receive Cheques from Bank and Reconcile Bank Account (Note 2)			X				
14. Review and Approve Bank Reconciliation		X					
15. Control Unused Cheques and Account for Continuity		X					X
16. Authorize Bank Transfers			X				
17. Match Supplier's Statements to Accounts Payable							
18. Approve Capital Projects	X						
19. Review Interim Capital Project Reports	X						
20. Prepare Departmental List of Major Equipment			X				
21. Inspect Major Equipment and Approval Lists						X	
22. Periodically Count Petty Cash and Review Vouchers			X				

* Or whoever is responsible for purchasing and receiving goods.

Notes:

- (1) For small cheques, the signing officers could be office manager and administrator provided that the latter examines the support.
- (2) Better control if the administrator picks up the cheques directly from the bank.

Small Hospital B

Duty Roster — Purchases, Payables, Payments

Function	Personnel					
	Finance Committee	Adminis- trator	Chief Accountant	Accounts Payable Clerk	Storekeeper*	Department Heads Secretary
1. Initiate Stores Requisitions						
2. Approve Stores Requisitions		X				X
3. Approve Purchase Orders		X				
4. Receiving Function					X	
5. Receive and Review Supplier's Invoices		X				
6. Match Supplies Invoices, Purchase Orders and Receiving Reports				X		
6a. Prepare General Account Cheques				X		
7. Follow up Unmatched Documents			X			
8. Approve Account Distribution			X			
9. Review Distribution of "non-allowable" Costs		X	X			
10. Review and Approve Support for Payment	X	X				
11. Sign Cheques (Note 1)	X	X				
12. Mail Cheques						X
13. Receive Cheques from Bank — Reconcile Bank Account (Note 2)			X			
14. Approve Bank Reconciliation		X				
15. Authorize Bank Transfers			X			
16. Reconcile Suppliers' Statements				X		
17. Approve Capital Projects and Disbursements	X		X			
18. Maintain Detailed Fixed Asset Ledger						
19. Periodically Count Petty Cash and Review Vouchers			X			

* Or whoever is responsible for purchasing and receiving goods.

Notes:

- (1) For small cheques, the signing officers could be chief accountant and administrator provided that the latter examines support.
- (2) Better control if the administrator picks up the cheques directly from the bank.

Payroll

Are there adequate controls to prevent:	Yes/No* N/A	Remarks
1. Payroll being inflated in any way?		
a) gross pay and paid hours of work reasonable.		
b) calculations checked (manual).		
c) review and sign payroll journals, sign payroll cheques.		
d) pay distributed and control un-claimed pay.		
e) reconcile bank.		
f) review bank reconciliation.		
2. Employees being paid for work not done?		
a) approved time sheets/work reports.		
3. Other payroll errors?		
a) rates and rate changes approved and written notification of changes to payroll clerk.		
b) imprest bank account.		
4. Errors occurring in hours of work?		
a) check of mathematical accuracy and independent review for reason- ableness.		

*No answers represent apparent weaknesses

Small Hospital A

Duty Roster — Payroll

Function	Personnel					
	Department Heads	Administrator	Payroll Clerk	Office Manager	Accounting Clerk	Finance Committee
1. Approve Hours Worked	X					
2. Approve Personnel and Rate Changes		X				
3. Prepare Payroll Check Calculations			X	X		
4. Review and Approve Payroll Journals, Summaries and Sign Payroll Cheques		X				
5. Distribute Payroll Cheques and Control Unclaimed Cheques				X		
6. Receive and Review Payroll Bank Account Data				X	X	
7. Reconcile Payroll Bank Account						
8. Review Payroll Bank Account Reconciliation		X				
9. Compare Actual Monthly Payroll Costs and Hours to Budget and Analyze Variances				X		
10. Review Comparison of Actual Payroll Costs and Hours to Budget						X

Are there insurable risks that are not adequately covered?	Yes/No	Remarks
a) malpractice liability insurance.	N/A	
b) fire and boiler insurance.		
c) public liability insurance.		
d) non-owned automobile insurance.		

Small Hospital B

Duty Roster — Payroll

Function	Personnel					
	Department Heads	Administrator	Payroll Clerk	Business Manager	Chief Accountant	Finance Committee
1. Approve Hours Worked	X					
2. Approve Personnel and Rate Changes		X				
3. Prepare Payroll			X			
4. Review and Approve Payroll Journals, Check Calculations, Sign Payroll Cheques		X				X
5. Approve Payroll Summary				X		
6. Distribute Payroll Cheques and Control Unclaimed Wages, Test Check Payroll Calculations						
7. Receive and Review Payroll Bank Account Data					X	
8. Reconcile Payroll Bank Account					X	
9. Review Payroll Bank Account Reconciliation				X		
10. Compare Actual Monthly Payroll Costs and Hours to Budget and Analyse Variances					X	
11. Review Comparison of Actual Payroll Costs and Hours to Budget						X

